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United Nations Office for Project Services

Annual report of the Executive Director on the activities of the United Nations Office for Project Services

Addendum

Internal audit and oversight activities

I. Introduction

1. Starting in 1998, the internal oversight issues of the United Nations Office for Project Services (UNOPS) have been addressed separately from those of the United Nations Development Programme (UNDP). Since UNDP continues to provide administrative services to UNOPS, many of the audit and oversight initiatives undertaken by UNDP may also affect UNOPS. For this reason, the Executive Board may wish to consider document DP/2000/21 in conjunction with the present report.

2. The oversight framework for UNOPS includes three elements: (a) external audit, performed by the United Nations Board of Auditors; (b) internal audit, performed by the Office of Audit and Performance Review (OAPR) of UNDP, under the terms of an agreement between the two organizations, for which UNOPS reimburses UNDP on a yearly basis for costs incurred; and (c) internal management oversight, which is directly associated with the self-financing principle by which UNOPS continues to operate.

II. Findings of the Office of Audit and Performance Review

3. The internal audit of UNOPS operations is carried out by the Project Services Audit Section (PSAS), a dedicated UNOPS audit section of the UNDP Office of Audit and Performance Review (OAPR). PSAS includes seven posts, one of which is encumbered by the Chief of the Section, four by auditors and one by an audit assistant. The information presented in the present chapter has been discussed with OAPR and reflects the views of that office.

4. As in previous years, OAPR conducted audits and management reviews of both headquarters and field activities in 1999. At headquarters, audits of the nature and structure of delegations of authority in UNOPS and of UNOPS suspense and clearing accounts, and a desk audit of imprest operations under a micro-credit support project in Africa were undertaken. In addition, two cases of allegations of irregularities/wrongdoing from 1998 were closed in 1999. The main issues relating to the delegations of authority were (a) the need to discontinue joint delegations to UNOPS project

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personnel and UNDP resident representatives and (b) the need to review and revise chapter 30 ("Delegations of Authority") of the UNOPS Handbook. As to the suspense and clearing accounts, items were identified that had been outstanding for several years. Observations regarding the imprest account operations are included in paragraph 12 below.

5. Audit of field activities included management reviews of three UNOPS units away from New York (the "units"): the Implementation Facilities of the Rehabilitation and Social Sustainability Division in Guatemala and in Kenya, and the Quito Construction Unit of the Latin America and the Caribbean Division. One of the main weaknesses identified was that none of the units had a unit work plan. Also, the Implementation Facilities did not have financial information for proper monitoring of projects under their portfolio and one of them also lacked terms of reference and was undertaking direct services that fall outside the UNOPS Financial Regulations. As regards the Construction Unit, no separate report was available on the qualitative and quantitative aspects of the performance track record of the Unit, including those relating to budgetary matters, expenditure, income and delivery.

6. A field audit was also made of the programme of the Office of the High Commissioner for Human Rights (UNCHR) implemented by UNOPS. The audit focused on the role and responsibilities of UNOPS considering the underlying interim Memorandum of Understanding, as well as on the overall implementation arrangement. While most of the control procedures were being applied in the operational process, the following weaknesses in the financial operations were noted: (a) the lack of a clear arrangement with UNDP and related written accounting procedures with regard to the receipt of third-party funds (that is, for non-UNDP projects and activities), such as those from UNCHR; (b) the lack of information and interim reports on delivered expenditure during 1999; and (c) the lack of an approved written distribution of responsibilities between UNCHR and UNOPS, which has contributed to some of the difficulties encountered in the provision of UNOPS services considering the learning aspects of the new relationship. In addition, the Office of the United Nations High Commissioner for Human Rights had not clearly established a focal point for each project, as had been anticipated in the MOU.

7. Other field audits included activities carried out within the framework of projects and programmes implemented by UNOPS, the main results of which are discussed in the next two paragraphs.

8. With regard to a large UNDP-funded programme in the Europe and the Commonwealth of Independent States region, it was noted that a programme steering committee had not been established although it was a requirement set out in the programme document. As correctly stated by UNOPS, the implementation of this requirement is beyond the sole responsibility of UNOPS since both UNDP and the Government also have crucial roles in this regard. There were serious weaknesses noted in the guest-house operation, which had not been properly established and managed.

9. In another large UNDP-funded project in the same region, it was noted that a tripartite review had never been held. OAPR expressed the opinion that such a review could have best addressed differences that existed between the UNDP Country Office and UNOPS regarding the approach to the implementation strategy contained in the proposed 1999 work plan.

10. In a large UNDP-funded programme for the development of the small, medium and micro-enterprise sector in one African country, the main weaknesses identified were: (a) lack of clarity in the roles and responsibilities of the key partners in the programme operation; (b) lack of agreement on the role of the particular unit established within the programme and its working relationship with key partners in the implementation; and (c) lack of consensus on the processes and procedures adopted during the past years of implementation, including those on work-planning, budget management, monitoring and reporting, and subcontracting. Because of the nature and structure of the programme, the responsibility for many of the reported weaknesses do not rest solely with UNOPS, but also with UNDP and the Government.

11. In addition, a project under the Small Grants Programme, funded by the Global Environment Facility, in the Europe and Commonwealth of Independent States region was reviewed and no major issues were raised.

12. Audits of five imprest account operations (two in Africa, two in Central America and one in Western Asia) identified some important issues that have organization-wide implications. These include the need to: (a) ensure that imprest accounts, which were

established for specific projects and are presently being managed and used by UNOPS operational units or successor projects, are immediately closed and/or transferred to such UNOPS operational units or successor projects; (b) for some imprest accounts that are being used to make financial payments on behalf of other UNOPS-executed projects, authorize in writing and include such arrangement in the designation of the custodian and holder of the imprest account, as well as apportion the costs of operating the imprest account to the other projects, especially if they are funded from different sources; (c) on the use of one imprest account to make payments for several projects, assess such arrangement in terms of control implications, cost-effectiveness and efficiency; (d) designate in writing the custodian and holder of the imprest account whenever a new imprest account holder is appointed; and (e) review several imprest account software applications that were developed and are being used by projects with a view to standardizing the use of such imprest account software applications.

13. Audits of management and other support services provided by UNDP through UNOPS under management service agreements (MSAs) between Governments and UNDP with respect to activities financed from World Bank loans were carried out as required by the agreement between the World Bank and UNDP on the MSA audit modality. According to this agreement, UNDP is to provide Governments with audited financial statements for each MSA with expenditure above $100,000 during the fiscal year under consideration. Audits of the implementation in 1998 under 14 MSAs financed by the World Bank were undertaken principally at headquarters and included four field visits. No issues were identified.

14. In 1999, a total of 31 audit reports were issued. Of these, the 14 reports on the government-funded MSAs financed by the World Bank do not contain recommendations because of the special nature and purpose of the reports. One other report, on common issues in the management audits of UNOPS decentralized offices does not contain recommendations, as they had already been made in the respective reports in 1998. The remaining 16 reports contained a total of 248 recommendations. Of these, 89 were in the area of finance, 31 in personnel, 47 in administration (which includes contracts and procurement), 37 in programme, 36 in the area of management and 8 in policy. UNOPS provided its responses on the actions taken or contemplated to be taken to implement the recommendations contained in all the issued reports. Of the 248 recommendations, UNOPS management agreed on 231, or 93 per cent of the cases.

III. Internal management oversight

15. The UNOPS Management Coordination Committee (MCC) continued to oversee activities and clear UNOPS budget submissions, business plans, and key strategic directions in 1999. As reported in document DP/2000/25, regular monitoring of financial aspects of ongoing operations, which is a key element for maintaining UNOPS operations within the self-financing principle, was limited in 1999 owing to the implementation of IMIS. It is, however, anticipated that the problems causing the delays in financial reporting experienced in 1999 will be identified and resolved in 2000 in cooperation with UNDP, UNFPA and the United Nations Secretariat.

16. As in previous years, the business planning process has continued to provide a means of monitoring overall performance in all aspects of UNOPS operations.

IV. Executive Board action

17. The Executive Board may wish to take note of the report on internal oversight (DP/2000/25/Add.1).